Imperial Oil Limited
and subsidiary companies

1880-1980

Interim report to shareholders for nine months ending September 30, 1980

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Imperial is celebrating its centennial during 1980. A booklet describing the company's origins in southwestern Ontario in 1880 and its development during the past 100 years is available to shareholders. Copies may be obtained from The Manager, Investor Relations, Imperial Oil Limited, 111 St. Clair Avenue West, Toronto, Canada, M5W 1K3.

The company's trademarks have varied during its existence. The Esso oval first appeared in 1946, following the three-star oval, which was used from about 1931 until 1946. The big red ball was familiar to Canadians during the 1920s and early 1930s. It followed the diamond shape, which identified the company during the first two decades of this century.

Performance highlights

	Third quarter 1979	Third quarter **1980**	Nine months to Sept. 30 1979	Nine months to Sept. 30 **1980**
Financial (millions of dollars)				
Operating earnings	112	**181**	309	**481**
Total earnings	134	**262**	331	**562**
Revenues	1661	**1822**	4731	**5298**
Funds from operations	217	**291**	601	**837**
Capital and exploration expenditures	217	**225**	584	**679**
Dividends per share (Class A) (dollars)	.30	**.35**	.80	**1.05**
Operating				
Gross production				
Crude oil (thousands of m^3/d)	40.3	**34.8**	42.4	**36.2**
Natural gas (millions of m^3/d)	8.2	**5.8**	9.6	**8.0**
Crude oil processed (thousands of m^3/d)	75.1	**68.8**	71.7	**71.1**
Sales				
Natural gas (millions of m^3/d)	8.9	**6.5**	10.4	**8.7**
Petroleum products (thousands of m^3/d)	70.4	**69.9**	73.4	**69.0**
Chemicals (thousands of tonnes per day)	5.3	**5.6**	6.1	**6.0**

The company continued to perform well in the third quarter of 1980. Operating earnings for the first nine months are estimated at $481 million, an increase of $172 million or 56 percent over the corresponding period last year. Earnings per share from operations were $3.41 compared to $2.37 for the same period last year.

As a result of legislation enacted by Alberta, total earnings for the nine months include a one-time, non-cash addition to operating earnings of $81 million, or 58 cents per share. The nine-months' earnings for 1979 included a one-time item of $22 million. Both items are described further under the heading "Unusual earnings items" on page 4.

Capital and exploration expenditures amounted to $679 million, up $95 million or 16 percent over 1979. Of this amount, $578 million was spent exploring for and developing natural resources and $74 million for facilities to manufacture petroleum products and chemicals. These expenditures, plus increases of $318 million in requirements for non-cash working capital, totalled $997 million, significantly more than the $837 million generated from operations.

The increase in operating earnings reflects a strong market for petroleum products and petrochemicals. Although sales volumes declined from the 1979 levels, mostly in heavy fuel oils, prices stayed firm. Strong margins for petrochemicals offset declines in earnings from agricultural chemicals, due mainly to weather factors, and from building products, which were affected by a general softening in the economy.

The Syncrude plant continued to operate well; the company's share of production was 4100 m^3/d for the third quarter and averaged 3100 m^3/d for the nine months. As a result of this performance, Syncrude produced a profit for the first nine months compared to a loss for the same period last year. However, production of conventional crude during the period declined by 18 percent from the 1979 levels, reflecting the lower productivity in older fields that is being experienced throughout the industry. These volume reductions, combined with higher production and exploration costs, were offset only partially by higher prices for oil and gas.

Operating earnings for the third quarter were $181 million or $1.15 per share compared to $112 million or 86 cents per share in 1979. The dividend for the third quarter was 35 cents per share, bringing the nine-month figure to $1.05, an increase of 25 cents per share or 31 percent over the 1979 amount.

Per-share earnings for 1980 are based on a weighted average of 141 million shares, following the rights issue of 26 million shares in June. After this offering, the number of shareholders increased by 4200 during the third quarter, of whom 3600 or 86 percent were in Canada, although distribution did not change significantly.

Consolidated statement of earnings
(unaudited)

	Third quarter 1979	Third quarter 1980	Nine months to Sept. 30 1979	Nine months to Sept. 30 1980
			millions of dollars	
Revenues				
Crude oil and natural gas	483	**383**	1364	**1243**
Petroleum products	965	**1175**	2758	**3285**
Chemicals	161	**176**	469	**572**
Investment income and other operating revenue	52	**88**	140	**198**
	1661	**1822**	4731	**5298**
Expenses				
Purchases of crude oil and products	946	**879**	2780	**2728**
Operating	165	**194**	464	**543**
Exploration	77	**52**	141	**161**
Marketing and administration	123	**148**	372	**423**
Interest	13	**13**	38	**45**
Depreciation and amortization	35	**37**	95	**116**
Income taxes	79	**146**	236	**383**
Taxes other than income taxes	111	**172**	296	**418**
	1549	**1641**	4422	**4817**
Operating earnings	112	**181**	309	**481**
Unusual items, net of income taxes (see "Unusual earnings items" on page 4)	22(1)	**81**(2)	22(1)	**81**(2)
Earnings for the period	134	**262**	331	**562**

Consolidated statement of changes in financial position
(unaudited)

	Nine months to Sept. 30 1979	Nine months to Sept. 30 1980
	millions of dollars	
Funds were provided from:		
Operations (a)	460	**676**
Exploration costs expensed	141	**161**
	601	**837**
Proceeds from sales of property, plant, and equipment	187	**16**
	788	**853**
Funds were used for:		
Dividends	(104)	**(146)**
Increase in non-cash working capital	(89)	**(318)**
Reduction of long-term debt	(12)	**(14)**
	(205)	**(478)**
Funds remaining for reinvestment	583	**375**
Capital expenditures	(283)	**(373)**
Exploration expenditures	(301)	**(306)**
	(1)	**(304)**
Additional funds from financing		
Long-term debt	292	**–**
Capital stock	7	**866**
Increase in cash, marketable securities, and short-term notes	298	**562**

a) Funds from operations comprise earnings adjusted for depreciation, deferred income taxes, and other non-cash items.

Approved by the board

Chairman and chief executive officer *President*

Operating statistics

	Third quarter 1979	Third quarter **1980**	Nine months to Sept. 30 1979	Nine months to Sept. 30 **1980**
Exploration and development				
Gross exploratory wells drilled –oil	5	**4**	28	**8**
–gas	14	**18**	54	**85**
–dry	13	**9**	37	**27**
Gross development wells drilled–oil	66	**11**	119	**53**
–gas	18	**16**	42	**42**
–dry	6	**0**	16	**9**
Gross production				
Conventional crude oil (thousands of m^3/d)	35.9	**29.7**	39.2	**32.2**
Syncrude upgraded crude oil (thousands of m^3/d)	3.4	**4.1**	2.3	**3.1**
Cold Lake heavy oil (thousands of m^3/d)	1.0	**1.0**	.9	**.9**
	40.3	**34.8**	42.4	**36.2**
Natural gas (millions of m^3/d)	8.2	**5.8**	9.6	**8.0**
Refining				
Crude oil processed (thousands of m^3/d)	75.1	**68.8**	71.7	**71.1**
Refinery capacity utilization (percent)	96	**90**	92	**93**
Sales				
Petroleum products (thousands of m^3/d)				
Gasolines	30.2	**31.2**	27.8	**27.7**
Middle distillates	17.3	**16.6**	23.1	**21.2**
Heavy fuel oils	6.3	**5.5**	7.6	**5.7**
Lubricants, greases, specialty oils, and other	16.6	**16.6**	14.9	**14.4**
	70.4	**69.9**	73.4	**69.0**
Natural gas (millions of m^3/d)	8.9	**6.5**	10.4	**8.7**
Chemicals (thousands of tonnes per day)				
Petrochemicals	2.7	**2.9**	2.6	**2.6**
Fertilizer	1.2	**1.3**	2.1	**1.9**
Building materials	1.4	**1.4**	1.4	**1.5**
	5.3	**5.6**	6.1	**6.0**

Shareholder information

Average number of common A and B shares outstanding per day, weighted monthly (thousands)	130 478	**156 827**	130 362	**140 877**
Share prices (Class A)				
high	45¼	**47⅞**	45¼	**57½**
low	33¾	**37¼**	24⅞	**35⅛**
close–Sept. 30	42⅜	**41**	42⅜	**41**
Shareholders' equity at Sept. 30 (millions of dollars)	2320	**3722**	2320	**3722**
Dividends paid (millions of dollars)	39	**55**	104	**146**
Dividends per share (dollars)	.30	**.35**	.80	**1.05**
Operating earnings per share (dollars)	.86	**1.15**	2.37	**3.41**
Total earnings per share (dollars)	1.03	**1.67**	2.54	**3.99**
Cash flow per share (dollars)	1.66	**1.86**	4.61	**5.94**

Activities of particular interest

Western exploration

The company participated in 83 successful gas wells and seven successful oil wells in western Canada during the first nine months of 1980. Exploration was centred in the Elmworth area straddling the border between Alberta and British Columbia where 42 successful gas wells were completed under agreements with Canadian Hunter Exploration Ltd. and Sulpetro Limited.

A second major area of activity was near Claresholm, in southwestern Alberta, where the company has a strong land position and is exploring in association with Sundance Oil Canada Ltd.

Arctic exploration

The company rebuilt the artificial island in the Beaufort Sea from which the Issungnak discovery was drilled last spring and began drilling a deeper follow-up well in October. This well will assess the potential of deeper formations and further evaluate a number of zones in which oil, gas, or both were either tested or indicated.

Before the end of the season, a new artificial island was completed in the Beaufort Sea at Alerk, 60 km southeast of Issungnak, for later drilling.

Atlantic offshore exploration

During the summer, the company continued its exploration in the waters off the east coast. By Sept. 30, about 4000 km of seismic surveys had been completed in the area of the company's holdings 160 km east of the Hibernia discovery.

Norman Wells project

Public hearings on the environmental and socio-economic aspects of the company's proposal to increase production from the oil field at Norman Wells, N.W.T., from 500 m^3/d to 4800 m^3/d were completed in September. The hearings also considered the environmental and socio-economic effects of a pipeline to carry production south along the Mackenzie River valley to a connecting system in northern Alberta. The National Energy Board began separate hearings during October on an application from Interprovincial Pipe Line (NW) Limited to build such a pipeline.

If plans for the pipeline and the increase in production are approved early enough, construction can begin in 1981 for completion in 1983.

Minerals

The company acquired the former Granduc underground copper mine near Stewart, B.C., in May, 1979, and is rehabilitating it at an estimated cost of about $50 million. Production of concentrate is expected to begin in the next few months. Planned production is 1.3 million tonnes of ore annually, grading 1.63 percent copper before concentration.

Petrochemicals

Since July, 1979, the company has been a participant with the Alberta Energy Company Ltd. in the Petalta project—a project to construct a world-scale plant to manufacture benzene. In September, the participants announced plans to add to the project a $300-million ethyl benzene/styrene plant to be located at Bruderheim, 50 km northeast of Edmonton. If approvals are obtained, construction on the new plant could begin in about a year and be completed in 1984.

Fertilizer

On Sept. 24, the Energy Resources Conservation Board of Alberta recommended to the Alberta government approval of the company's application to build a $400-million plant to manufacture nitrogen fertilizer. If approved, the plant will be built adjacent to the company's existing fertilizer facilities in Redwater, Alta.

Research

A major expansion and modernization of the research facilities at Sarnia was opened in September, highlighting a symposium on the company's research and development activities. The project cost $3.5 million and added 6400 m^2 of floor space. At the opening, J. G. Livingstone, Imperial's president, announced plans for a new facility for process and automotive research to be built at Sarnia over the next two years at a cost of about $25 million.

The company operates two other research centres—in Calgary and Montreal. Total staff of the three centres is 610 persons.

Supply forecast

In a report submitted to the National Energy Board in August, the company said Canadian supplies of oil and gas could be more plentiful during the next 20 years than it indicated in its 1979 forecast. However, the availability of those supplies will depend on a resolution of the federal-provincial dispute on prices and sharing of revenues and on a more stable business environment. This is particularly true for oil, since the developments of oil-sands plants is critical to the balancing of supply and demand, and they cannot proceed in an uncertain business environment.

Imports of foreign oil are expected to increase until about 1986 and could be required as far west as parts of Ontario. Imports could decline thereafter if new oil-sands plants and resources off the east coast are brought into production without delay.

Imperial's submission said realistic agreements on energy prices, revenue sharing, and the regulatory environment would provide Canada with a unique opportunity to move towards self-sufficiency in oil and help maintain a strong national economy.

Unusual earnings items

1) On Aug. 30, 1979, the Alberta Energy Company Ltd. exercised its option to purchase 20 percent of the Syncrude project. As a result, the company gained $22 million, net of income taxes of $24 million, and its interest in the project was reduced from 31.25 to 25 percent.

2) In 1973, Alberta established the Alberta Petroleum Marketing Commission to control the marketing and distribution of crude oil. On April 1, 1980, the commission began purchasing, at the wellhead, the crude produced from Crown leases. As a result of this change in operations, the company has recorded a one-time, non-cash increase in earnings of $81 million, net of income taxes of $45 million. The company now records the earnings from all crude production at the wellhead rather than after it has been processed and sold as refined products.